

ORIGINAL

DIVISION OF CONSUMER ADVOCACY
Department of Commerce and
Consumer Affairs
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PUBLIC UTILITIES
COMMISSION

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FILED

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
WAI'OLA O MOLOKA'I, INC.)
For Review and Approval of Rate Increases;)
Revised Rate Schedules; and Revised Rules)

DOCKET NO. 2009-0049

DIVISION OF CONSUMER ADVOCACY'S
SUPPLEMENTAL INFORMATION REQUESTS

Pursuant to the Stipulated Regulatory Schedule approved in Order
Approving Proposed Procedural Order, as Modified filed on November 6, 2009, the
Division of Consumer Advocacy submits its **SUPPLEMENTAL INFORMATION**
REQUESTS in the above docketed matter.

DATED: Honolulu, Hawaii, December 9, 2009.

Respectfully submitted,

By Dean Nishina
DEAN NISHINA
Executive Director

DIVISION OF CONSUMER ADVOCACY

DOCKET NO. 2009-0049

WAI'OLA O MOLOKA'I, INC.

SUPPLEMENTAL INFORMATION REQUESTS

INSTRUCTIONS

In order to expedite and facilitate the Consumer Advocate's review and analysis in the above matter, the following is requested:

1. For each response, the Company should identify the person who is responsible for preparing the response as well as the witness who will be responsible for sponsoring the response should there be an evidentiary hearing;
2. Unless otherwise specifically requested, for applicable schedules or workpapers, the Company should provide hard copies of each schedule or workpaper together with one copy of each such schedule or workpaper on electronic media in a mutually agreeable format (e.g., Excel and Quattro Pro, to name two examples); and
3. When an information request makes reference to specific documentation used by the Company to support its response, it is not intended that the response be limited to just the specific document referenced in the request. The response should include any non-privileged memoranda, internal or external studies, assumptions, Company instructions, or any other relevant authoritative source which the Company used.
4. Should the Company claim that any information is not discoverable for any reason:
 - a. State all claimed privileges and objections to disclosure;

- b. State all facts and reasons supporting each claimed privilege and objection;
- c. State under what conditions the Company is willing to permit disclosure to the Consumer Advocate (e.g., protective agreement, review at business offices, etc.); and
- d. If the Company claims that a written document or electronic file is not discoverable, besides complying with subparagraphs 4(a-c), identify each document or electronic file, or portions thereof, that the Company claims are privileged or will not be disclosed, including the title or subject matter, the date, the author(s) and the addressee(s).

DOCKET NO. 2009-0049

WAI'OLA O MOLOKA'I INC.

SUPPLEMENTAL INFORMATION REQUESTS

CA-SIR-1

Ref: Response to CA-IR-36.

The Company indicates that its test year projection relied upon an escalation index applied to the 6/30/08 results.

- a. Please confirm that the Company's methodology seems to assume that the amount of water to be delivered in the test year will remain the same.
 1. Based on the assumption that the test year level should remain at a level consistent with the past, please explain the basis for this assumption since the Company has generally indicated that its test year sales should be lower than recent history suggests.
 2. If the Company is not assuming that the amount of water from DHHL for the test year will be the same as 2008, please provide the projected amount of water and the supporting workpapers for that estimate.
- b. In response to CA-IR-36c., the Company refers to the attachment CA-IR-13a for the applicable contract.

1. Please identify the specific section that identifies the term that discussion the application of an escalation index.
2. If there are any amendments to the contract that discuss the application of an escalation index, please provide a copy of all amendments to the contract.
3. If there are no contract provisions that require the application of a 3.0% escalation factor, please discuss why the Company has used this factor and provide the supporting documentation for the use of the factor.
4. In reviewing the bills received for this item, it is noted that the rate in 2009 appears to approximate \$0.00385. Please reconcile this observation with the Company's methodology and the contract term of \$0.41 per thousand gallons.
5. If not already discussed, please reconcile the agreement, observations based on the bills from DHHL and the Company's assertions that the rates for 2009 would vary from \$0.90 to \$1.50, based on consumption (as discussed in response to CA-IR-13).

CA-SIR-2

Ref: Response to CA-IR-35.

- a. Please explain the basis for the estimated value of 26,000.
Please provide copies of all workpapers used to determine the estimate.
- b. If not already summarized elsewhere, please provide the estimated usage of water driving the estimated direct expense for the: 1) DHHL to Wailoa at Kalae; 2) Potable at Waiola at Puunana; and 3) Use of Mountain Facilities.
- c. If the total amount of water driving the estimated expenses for lines 1 through 4 of WOM 10.3 differs from the estimated 50,000 thousand gallons used for test year sales with some applied unaccounted for water factor, please reconcile and explain the difference.

CA-SIR-3

Ref: Response to CA-IR-37.

- a. Please explain what line 4, "Use of Mountain Facilities" represents and why it only appears in 2008.
- b. The Company's responses to CA-IR-37 indicate that the appropriate comparison includes line 3 plus lines 5 to 14. Please explain why line 4 should not be included.

CA-SIR-4

Ref: Response to CA-IR-37.

- a. The Company's response indicates that it used a 3.0% escalation factor. Please explain the basis for using this factor.
- b. Please provide copies of any analyses that demonstrate the reasonableness of this factor.
- c. The Company's described methodology suggests that it is appropriate to use 2008 as the basis for the test year forecast.
 1. Please discuss and explain why 2008 is an appropriate normalized level upon which to apply an escalation factor to derive the test year estimate.
 2. Given the Company's assertion that test year sales will be lower than historical, please explain why it is reasonable to assume that the usage for this expense item will remain constant with 2008 levels.

CA-SIR-5

Ref: Response to CA-IR-38.

- a. The Company indicates that the chemicals used by WOM were recorded as MPU expense. Please confirm that the Company has conducted a thorough review and has determined that there are no other items being recognized

and recorded as a revenue, expense or balance sheet item for any of the regulated entities.

- b. Please provide support for the asserted level of chemical expense.

CA-SIR-6

Ref: Response to CA-IR-41.

- a. The Company contends that the charge from Mr. Brokate is recurring, but may not do so annually.
 - 1. Please identify the cycle over which these services, such as those Mr. Brokate provided for the period ended 6/30/08, are procured.
 - 2. Please provide copies of the documents that support the Company's response to subpart 1. above.
 - 3. If the Company cannot identify anything within the last five years, please discuss the reasonableness of using a five year average for the test year.
 - 4. Please describe the operations that require the licensed services of Mr. Brokate and identify the type of license that Mr. Brokate has.
- b. The Company contends that the charge from the County of Maui is recurring, but may not do so annually.

1. Please identify the cycle over which these charges, such as those received from the County of Maui, are required.
2. Please provide copies of the documents that support the Company's response to subpart 1. above.
3. If the Company cannot identify anything within the last five years, please discuss the reasonableness of using a five year average of this expense for the test year.

CA-SIR-7

Ref: Response to CA-IR-42.

- a. The Company's supplemental response indicates that the increase in plant R&M between 2007 and 2008 relates to increase in both minor and non-minor R&M, but does not explain why those levels increased. Please explain why the levels increased in both minor and non-minor R&M.
- b. The Company's response regarding proof as to whether the level of expenses in 2008 might be recurring, whether annually or periodic, does not offer any supporting documentation. Please confirm that there is no documentation and that it is only the Company's contention that the levels in 2008 reflect recurring costs that should be used for the test year, notwithstanding the historical levels.

1. If this understanding is incorrect, please provide the documentation that supports the Company's contention.
2. If this understanding is incorrect, please provide the necessary corrections regarding whether \$10,160 is expected to be an annually recurring level as is suggested on the Company's WOM 10.8.
3. Please confirm whether the Company is asserting the level should be 10,160 as set forth on its schedule or 10,180 as set forth in its supplemental response Attachment 42.b.1. Please note that the Consumer Advocate assumes that Attachment 42.b.1 illustrates the Company's comparison of 2008 and 2007 even though the description on lines 1 and 3 suggest otherwise.

CA-SIR-8

Ref: Response to CA-IR-44.

- a. Please confirm that there are no internal labor costs included within the test year estimates or recorded expenses for the regulatory expense.
- b. If the Company has included internal labor costs, whether directly charged or allocated from an affiliate, please identify those costs by description and amount in each phase.

- c. The Company indicates that the regulatory professionals were not bid because of prior work and specific knowledge of the Company's operations not available to other providers.
 - 1. Please identify the prior regulatory proceedings applicable to WOM upon which the current regulatory professional and legal team worked.
 - 2. Please confirm or refute that it is the Company's position that a bidding process would not have potentially resulted in a lower regulatory expense amount and provide the basis for the Company's response.

CA-SIR-9

Ref: Response to CA-IR-46.

- a. Please confirm that there is a Company policy that limits the use of Company paid for cellular service to only utility related purposes (i.e., no personal use). Please provide a copy of that policy.
- b. Please discuss whether the Company has investigated other alternatives to decrease the overall communications expense.
 - 1. If so, please provide the results of that analysis.
 - 2. If not, please explain why not.

- c. If the Company is recovering cellular service costs from customers already, please describe the nature of the additional \$1,000 costs from MPL and explain why the cellular service or the existing telephone service is insufficient to maintain the level of communications between MPL and WOM for essential operations.

CA-SIR-10

Ref: Response to CA-IR-49.

The Company contends that the majority of users are domestic and that the use of tiered rates is not warranted.

- a. Is water conservation an issue in the area?
- b. If water conservation is an issue in the area, please explain why rate design tools, such as tiered rates, would not contribute to water conservation efforts.

CA-SIR-11

Ref: Response to CA-IR-49.

- a. Based on WOM 11.3, while the majority of bills are related to the 5/8" meters, there are customers with 1.0" meters and above, please explain whether it is reasonable to have all customer classes paying the same volumetric rate.
- b. Please confirm that based on the WOM 11.1, the customers with 5/8" meters average about 10.867 thousand gallons (73,342 / 6,749) over the 18 months ended 12/31/08.

- c. Please confirm that based on the WOM 11.1, the customers with 1.0" meters (MIS) average about 317.5 thousand gallons (5,080 / 16) over the 18 months ended 12/31/08.
- d. Please confirm that based on the WOM 11.1, the customers with 1.0" meters average about 23.81 thousand gallons (3,572 / 150) over the 18 months ended 12/31/08.
- e. Please reconcile apparent differences between WOM 11 and the supporting schedules.
 - 1. For instance, explain why the descriptions on WOM 11 suggest that there are ¾" meter customers but that is not reflected on 11. 1 and 11.3.
 - 2. Please state whether there are 12 customers or 12 bills for the 3" meters as set forth on WOM 11.3, or 12 customers or bills for 2" meters as set forth on WOM 11.
 - 3. Please explain whether there are 48 customers or bills for ¾" (WOM 11) or 1.0" meters (WOM 11.3) and all other apparent differences.

CA-SIR-12

Ref: Response to CA-IR-53.

- a. On WOM 11, there is a charge of \$250 for the 8" meters. On WOM 11.3, there is no charge for the 8" meters. Please explain.

- b. In its response to CA-IR-53, the Company indicates that it should have included a monthly charge of \$5.25, for an annual amount of \$63. Please identify the meter size serving this customer class.
- c. On both WOM 11 and WOM 11.3, there is no charge for the (200) KWA meter. The Company's response indicates that this is an inactive meter. Please confirm that a disconnect fee was collected to make this an inactive meter.
 - 1. If a disconnect fee was collected, please explain why the meter needs to be periodically read to confirm that it is inactive.
 - 2. If the meter has not been disconnected and a user could receive water through the meter, please explain why a monthly charge should not be collected for that meter.

CA-SIR-13

Ref: Response to CA-IR-20.

- a. Please state whether there are any records to support the need for the improvements that are reflected as reservoir improvements.
- b. The Company asserts that it believes the improvements were made to enable the reservoir to continue providing

service to its customers. In the absence of any supporting documents, please state the basis for those assertions.

CA-SIR-14

Ref: Response to CA-IR-20.

- a. Based on the response, it appears that the reservoir improvements were made to the "Water System - Maunaloa." Please confirm this understanding.
- b. If the useful life of 30 years was used for the water system, please explain why 25 years was used as a reasonable estimate for the reservoir improvements.

CA-SIR-15

Ref: Response to CA-IR-21.

- a. Please state whether additional information was obtained about the Lialalii reservoir.
- b. Even if additional documentation cannot be found at this time, please provide a detailed description of the reservoir and how it functions as part of the system
 1. In addition, please explain why a Company the size of WOM needs to have four reservoirs serving the Wai'ola system.
 2. If the Company has any studies or analyses supporting its response, please provide a copy of those studies or reports.

CA-SIR-16

Ref: Response to CA-IR-21.

The Company indicates that the Maunaloa 12" water main was to serve as a pipeline from a future Waiola Well to Maunaloa, but that the project has been put on hold.

- a. Please discuss whether the water main is or is not being used for utility services at this time. If so, please provide a detailed description of what purpose and function(s) the water main is meeting.
- b. Please discuss whether the item is completed or actually reflects work in progress.
- c. Please discuss whether there are any definite plans to use the water main. If so, please provide a detailed description of those plans and the timelines that are associated with those plans. Please provide copies of any documents that support the Company's response.

CA-SIR-17

Ref: Response to CA-IR-21.

The Company has used an estimated useful life of 25 years for the 4" pipeline Kualapuu reservoir, but uses only 7 years for certain other pipeline replacements. Please explain why. If there are any supporting workpapers, please provide a copy of those workpapers.

CA-SIR-18

Ref: Response to CA-IR-8.

The Company indicates that it would not be able to recognize net operating losses to offset taxable income.

- a. Please confirm that there are net operating losses due to the losses suffered by the Company in the past. If this understanding is incorrect, please provide the analysis and workpapers that support the argument.
- b. Putting aside the contention that, as a subsidiary, the Company would not be able to recognize net operating losses since it is part of a consolidated tax return, please confirm that, on a stand-alone basis, if the Company were filing its own tax return, there would be net operating losses available for carryforward purposes.

CA-SIR-19

Ref: Response to CA-IR-19.

- a. If not already provided, please provide copies of the appropriate and applicable tax schedules that show the following:
 1. tax depreciation taken on all plant currently reflected in the Company's plant in service balance; and
 2. no item currently in the Company's plant in service was written off in its entirety.

- b. If the Company cannot provide a copy of any schedule that illustrates that all plant reflected in the Company's plant in service are being properly depreciated for tax purposes because of the filing of consolidated tax returns, please provide copies of the applicable reconciliation schedules that illustrate the relationship between the tax depreciation schedules filed with the IRS and the Company's books.
- c. If the Company does not have any document that would support the assertion that no plant currently reflected in the Company's plant in service balance was written off in its entirety for tax purposes, please confirm or refute that the Company, in reviewing the appropriate consolidated tax returns and supporting workpapers, could verify whether any plant was written of for tax purposes. If this understanding is incorrect, please explain.
- d. If no document exists to verify the Company's claims regarding any item currently reflected in plant in service being written off, please state the basis of the Company's assertion that, to the best of its knowledge, no item was written off.
- e. Given the observation regarding the differences in the plant items reflected for book and tax purposes and the *Company's recommendation articulated in its response*

to CA-IR-23, please provide further discussion as to how the Company can assert that it, or its parent company, did not write off any item in its entirety for tax purposes.

CA-SIR-20

Ref: Response to CA-IR-12.

Please state whether the additional adjustments made by the auditor have been identified yet. If so, please provide those adjustments.

CA-SIR-21

Ref: Response to CA-IR-14.

- a. Please confirm that the plant, property, and equipment covered under the operating lease have not been written off for tax purposes by MPL or any affiliate, and/or the costs of those items have not already been recovered from another source other than the lease.
- b. Please provide copies of any documents that support the Company's contention.
- c. If the Company is unable to produce any documentation that might support the possible contention that the applicable plant, property, and equipment have not been recovered through some other means, please discuss whether the costs have all been written off, depreciated, and/or recovered through some other source, please explain why

the items could not be simply deeded over to the utility company.

CA-SIR-22

Ref: Response to CA-IR-54.

Notwithstanding the Company's response that it does not have any data regarding the establishment of the monthly rates for the different meter sizes, please respond to the following:

- a. Given the potential throughput from the meter size of 1 and 1.5 inches, please discuss whether it is reasonable to have monthly charges that are exactly the same for both meter sizes. Please provide any supporting documentation.
- b. If not already discussed, please explain why it is reasonable to have the same monthly charge for 1" and 1.5" meters, but have the tap-in charge of \$4,000 for 1.5" meters and \$2,000 for 1" meters.
- c. Similar to the question posed in subpart b. above, the Consumer Advocate observes that the relationship between the tap-in charges for various meter sizes are not consistent with the relative ratios among the monthly charges. For each applicable difference (e.g., different ratios between the 1.5" and 2" meter monthly charges and tap-in charges), please discuss the reasonableness of those differences.

CA-SIR-23

Ref: Responses to CA-IR-31 through 34.

- a. Please identify the water loss ratio for the Company in each of the past five years.
- b. Please identify each repair and maintenance or capital project completed within the last five years that might affect the measured water loss or unaccounted for water. For each identified project, please provide the following:
 1. Please identify the nature of the project;
 2. Please identify the cost of the project;
 3. Indicate whether the project was recorded as a capital or expense item; and
 4. Provide the projected impact on the unaccounted for water ratio for each project and include a copy of the analysis and workpaper used to determine the impact.
- c. Assuming that the recent historical unaccounted for water percentage exceeds 10%, please identify the projects or other measures that will be implemented to reduce the unaccounted for water.

CA-SIR-24

Ref: Response to CA-IR-23.

- a. In its attachment, the Company appears to be recommending "that all income tax elements be removed from the cost of service and revenue requirements of both

MPU and WOM.” Please provide a detailed discussion of what the Company is recommending and how that recommendation should manifest in the test year revenue requirement determination.

- b. Given the integral role that income taxes and derivative elements, such as accumulated deferred income taxes, play in the determination of revenue requirements, please explain why it would be reasonable to simply “remove” the income tax elements.

- 1. Please provide any and all known authoritative cites in this jurisdiction or any other where a commission approved of removing all income tax elements from a rate case.

- c. Regardless of whether any citations can be provided, please discuss whether it is the Company’s assertion that removing all income tax elements from the test year would still yield a reasonable basis upon which to base rates. Please provide any and all supporting documentation.

- d. Please discuss, if the proposed removal of all income tax elements occurs, whether the Company have a “complete” application with all relevant tax elements. In your discussion, please discuss the need for income tax expense

· calculation, especially given the requested return on rate base and resulting level of operating income.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **DIVISION OF CONSUMER ADVOCACY'S SUPPLEMENTAL INFORMATION REQUESTS** was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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DATED: Honolulu, Hawaii, December 9, 2009.


